

Routing

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The Regulatory & Compliance Update is published by Renaissance Regulatory Services for its clients' legal, compliance, senior management, and supervisory personnel.

This memorandum is distributed to RRS clients at no charge and includes "hot topics" of focus by regulators and of interest to compliance professionals. The document is intended to provide reminders of regulatory matters that were released or issued during the previous month.

The information contained in this publication was compiled from various regulatory releases and is believed to be true and correct as of the date of distribution. Many regulatory issues are subject to interpretations that can change as industry rules and regulations change, and as compliance issues evolve. Readers are cautioned to consider their individual situations and are encouraged to contact RRS staff for guidance on any issues. The information is not intended as legal or accounting advice, which can only be provided by a duly qualified attorney or certified public accountant.

Hot Topics

- **DEADLINE:** FOCUS Filing Due May 23rd
- **EVENT:** Visit the RRS booth at the FINRA SPRING CONFERENCE May 21-23

NOTABLE ITEMS IN THIS EDITION

- **SEC** - Definitions of Terms and Exemptions Relating to the "Broker" Exceptions for Banks – Page 4
- **FINRA** - FINRA issues Guidance on Best Practices for Detecting and Preventing "Rogue" Trading – Page 7
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Service Spotlight: Compliance Exams

RRS' comprehensive suite of compliance examination services include:

- SEC compliance examinations for broker-dealers, investment advisers, investment companies and transfer agents;
- FINRA compliance examinations and supervisory controls testing;
- FINRA OSJ and Branch office examinations;
- FINRA Trading and Market Making examinations;
- MSRB Compliance examinations;
- Anti-money laundering program testing;
- Financial Operations examinations including net capital and customer reserve;
- Focused sales practices and trading investigations.

With former SEC, FINRA and State examiners, RRS can provide a customized solution to meet your regulatory and compliance needs.

For more information or to request a proposal, contact your account representative or call us at (561) 368-2245.

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SEC

RRS PROVIDES A FULL RANGE OF SERVICES TO ASSIST WITH YOUR FIRM'S COMPLIANCE WITH SEC RULE 206(4)-7, INCLUDING:

SEC CHARGES 14 IN \$64 MILLION PENNY STOCK SCHEME

The Securities and Exchange Commission charged 11 individuals and three companies, alleging they conspired to illegally issue and sell unregistered stock in a purported diamond and gold mining company and lined their pockets with more than \$64 million from 40,000 investors nationwide. [\(link\)](#)

MUTUAL FUND COMPARISONS USING INTERACTIVE DATA NOW AVAILABLE TO INVESTORS

Securities and Exchange Commission Chairman Christopher Cox announced the launch of a new Internet Web page that enables investors to more easily read, analyze, and compare the information provided by mutual funds related to fund cost, risk, and past performance. [\(link\)](#)

SEC TAKES ACTION TO HALT ONLINE ACCOUNT INTRUSION AND IDENTITY THEFT SCHEME

The Securities and Exchange Commission took action to stop a sophisticated Internet scheme that stole the identities of unsuspecting individuals and netted more than \$66,000 in illicit profits in just seven weeks. [\(link\)](#)

SEC CHARGES FIVE FORMER SAN DIEGO OFFICIALS WITH SECURITIES FRAUD

The Securities and Exchange Commission filed securities fraud charges against five former San Diego city officials who played key roles in the city's inadequate municipal securities disclosures in 2002 and 2003. The SEC charged the former officials for failing to disclose to the investing public buying the city's municipal bonds that there were funding problems with its pension and retiree health care obligations and those liabilities had placed the city in serious financial jeopardy. [\(link\)](#)

- ✓ COMPREHENSIVE RISK ASSESSMENT
- ✓ WRITTEN POLICIES AND PROCEDURES ASSESSMENT
- ✓ DOCUMENT REVIEW AND FORENSIC TESTING
- ✓ FINANCIAL STATEMENT REVIEW
- ✓ BEST PRACTICES ASSESSMENT
- ✓ IMPLEMENTATION ASSISTANCE
- ✓ ONGOING COMPLIANCE SUPPORT

CONTACT BARBARA SIMMONS AT (404) 370-4655 OR BARBARASIMMONS@RRSCOMPLIANCE.COM FOR MORE INFORMATION.

STATEMENT FROM SECURITIES AND EXCHANGE COMMISSION'S OFFICE OF PUBLIC AFFAIRS

The Securities and Exchange Commission's Office of Public Affairs issued the following statement:

An article in yesterday's New York Times, in describing a recent groundbreaking SEC enforcement action against JPMorgan Chase & Co. (<http://www.sec.gov/litigation/admin/2008/33-8906.pdf>), stated that "the S.E.C. said the bank failed to detect wrongdoing at a client for which it was a trustee."

The Commission's Order found that JPMorgan Chase & Co. was a "cause" of the client's violation of certain antifraud provisions of the securities laws. Contrary to the New York Times article's assertion, federal law prohibits the imposition of a financial penalty for such a finding.

The SEC has asked the New York Times to correct its story. [\(link\)](#)

DEFINITIONS OF TERMS AND EXEMPTIONS RELATING TO THE "BROKER" EXCEPTIONS FOR BANKS

The Board and the Commission jointly are adopting technical amendments to Regulation R, which the Agencies jointly

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adopted in September 2007. Regulation R implements certain of the exceptions for banks from the definition of the term "broker" in Section 3(a)(4) of the Securities Exchange Act of 1934 ("Exchange Act"), as amended by the Gramm-Leach-Bliley Act ("GLBA"). The technical amendments correct cross-references and other typographical errors in the regulation. [\(link\)](#)

SEC LAUNCHES NEW OFFENSIVE TO ALERT INVESTORS ABOUT PHONY INVESTMENT SOLICITATIONS

The Securities and Exchange Commission announced the launch of its latest offensive targeting online boiler rooms, cold calls, and other potentially fraudulent financial solicitations circulating to unsuspecting investors. Such solicitations often use phony claims of SEC registration, false U.S. addresses, or endorsements from make-believe government agencies or international organizations to make their investment opportunities appear more credible. Some also falsely claim to be affiliated with established brokerage firms. [\(link\)](#)

SEC CHAIRMAN COX STATEMENT ON FINANCIAL STABILITY FORUM'S REPORT ON RECENT FINANCIAL MARKET TURMOIL

The Financial Stability Forum (FSF) has issued its "Report on Enhancing Market and Institutional Resilience." This work was undertaken at the request of the G-7 Finance Ministers and Central Bank Governors and delivered for their recent meeting in Washington, D.C. [\(link\)](#)

DISCLOSURE OF DIVESTMENT BY REGISTER INVESTMENT COMPANIES IN ACCORDANCE WITH SUDAN ACCOUNTABILITY AND DIVESTMENT ACT OF 2007

The Securities and Exchange Commission is adopting amendments to its forms under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 that will require disclosure by a registered investment company that divests, in accordance with the Sudan Accountability and Divestment Act of 2007, from securities of issuers that the investment company determines, using credible information that is available to the public, conduct or have direct investments in certain business operations in Sudan. The Sudan Accountability and Divestment Act limits civil, criminal, and administrative actions that may be brought against a

registered investment company that divests itself from such securities, provided that the investment company makes disclosures in accordance with regulations prescribed by the Commission. [\(link\)](#)

SEC CHARGES WALL STREET SHORT-SELLER WITH SPREADING FALSE RUMORS

The Securities and Exchange Commission charged Paul S. Berliner, a Wall Street trader formerly associated with Schottenfeld Group LLC, with securities fraud and market manipulation for intentionally spreading false rumors about The Blackstone Group's acquisition of Alliance Data Systems (ADS) while selling ADS short. [\(link\)](#)

SEC ANNOUNCES \$30 MILLION FAIR FUND DISTRIBUTION TO INVESTORS AFFECTED BY UNDISCLOSED MARKET TIMING IN RS INVESTMENTS MUTUAL FUNDS

The Securities and Exchange Commission announced the distribution of approximately \$30.6 million to more than 250,000 investors who were affected by undisclosed market timing in certain RS Investments mutual funds. [\(link\)](#)

RRS' REGULATORY AND COMPLIANCE CONSULTING AND OUTSOURCING SOLUTIONS FOR BROKER-DEALERS AND INVESTMENT ADVISERS INCLUDE:

- ✓ SEC/FINRA COMPLIANCE AND SUPERVISORY CONTROLS EXAMINATIONS
- ✓ STARTUP CONSULTING & SUPPORT
- ✓ AML PROGRAM DEVELOPMENT AND REVIEWS
- ✓ ANNUAL COMPLIANCE MEETINGS
- ✓ WRITTEN SUPERVISORY POLICIES AND PROCEDURES
- ✓ REGULATORY MANDATES
- ✓ COMPLIANCE PROGRAMS AND TRAINING
- ✓ CODE OF ETHICS

CONTACT BART McDONALD AT (954) 368-2245 OR BARTMCDONALD@RRSCOMPLIANCE.COM FOR MORE INFORMATION.

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RECOMMENDATIONS READY FOR COMMISSION ACTION TO FACILITATE U.S. INVESTORS' EXERCISE OF RIGHTS IN OVERSEAS MERGERS AND ACQUISITIONS

The Securities and Exchange Commission's Division of

Corporation Finance said that it has completed its review of the Commission's cross-border tender, exchange offer and business combination rules, and has prepared recommendations for consideration by the Commission. [\(link\)](#)

SEC ADOPTS REGULATIONS TO IMPLEMENT SUDAN ACCOUNTABILITY AND DIVESTMENT ACT OF 2007

The Securities and Exchange Commission has adopted rules requiring a registered investment company (fund) to disclose when it divests, in accordance with the Sudan Accountability

and Divestment Act of 2007, from securities of issuers that the fund determines conduct or have direct investments in certain business operations in Sudan. The Commission adopted the rules on April 24, 2008. The Sudan Accountability and Divestment Act required the SEC to prescribe regulations requiring this disclosure by April 29, 2008. [\(link\)](#)

COMPLIANCE TIPS

FOR CHECK AND APPLICATION WAY BUSINESS – GO TO THE ISSUERS THAT YOU HAVE A SELLING AGREEMENTS WITH AND REQUEST THAT THEY NOT PROCESS APPLICATIONS THAT DO NOT EVIDENCE SUPERVISORY APPROVAL. SOME OF THE LARGER ISSUERS WILL DO THIS TO ASSIST YOUR COMPLIANCE FUNCTION; HOWEVER, IT IS YOUR RESPONSIBILITY TO ADEQUATELY REVIEW ALL APPLICATIONS. THIS WOULD SIMPLY BE AN ADDED BACK-UP IF SOMETHING SLIPPED THROUGH AS YOU CANNOT RELY ON THE ISSUER TO CONDUCT YOUR SUITABILITY REVIEWS.

WHERE ARE THEY GOING?

RECENT TURMOIL IN THE DEBT MARKETS HAS INCREASED THE REGULATORS' EMPHASIS ON THE SALES, TRADING AND PRICING PRACTICES OF BROKER-DEALERS, INVESTMENT ADVISERS, AND FUNDS. AT RETAIL FIRMS, THE REGULATORY EXAMINATIONS AND INVESTIGATIONS ARE FOCUSING ON DISCLOSURES TO CUSTOMERS IN ADVERTISING, SALES LITERATURE AND AT THE POINT OF SALE, WHILE IN THE INSTITUTIONAL SPACE, THE FOCUS IS ON PRICING MODELS, STRESS TESTING AND TRADING. RRS CAN CUSTOMIZE AN EXAMINATION SCOPE TO TEST YOUR FIRM'S COMPLIANCE AND SUPERVISORY STRUCTURE RELATIVE ALL OF THE AREAS WHERE THE REGULATORS ARE SETTING THEIR SIGHTS.

CONTACT LOUIS DEMPSEY AT (561) 368-2245 OR LOUISDEMPSEY@RRSCOMPLIANCE.COM FOR MORE INFORMATION.

April 2008

FINRA

FINRA ISSUES GUIDANCE ON BEST PRACTICES FOR DETECTING AND PREVENTING "ROGUE" TRADING

The Financial Industry Regulatory Authority (FINRA) issued guidance to firms outlining best practices for detecting and preventing unauthorized proprietary trading, often called "rogue" trading. The Notice comes in the wake of several recent cases involving allegations of unauthorized trading that resulted in substantial losses by firms both in the United States and abroad. [\(link\)](#)

FINRA IMPLEMENTS CHANGES TO OTC REPORTING FACILITY AND OTC BULLETIN BOARD INVOICE PROCESSES

FINRA's process for generating and mailing certain invoices related to charges for usage of the ORF and the OTCBB will change on April 1, 2008. [\(link\)](#)

FOREIGN RESEARCH ANALYST EXEMPTION FROM THE RESEARCH ANALYST QUALIFICATION EXAMINATION

Certain research analysts employed by a member firm's foreign affiliate who contribute to the preparation of a member firm's research reports are exempt from the Research Analyst Qualification Examination per NASD Rule 1050 and Incorporated NYSE Rule 344. The rule change supersedes an existing exemption that applies only to research analysts who are employed by foreign affiliates in certain FINRA-approved jurisdictions. [\(link\)](#)

MEMBER FIRM DISCLOSURE AND SUPERVISORY REVIEW OBLIGATIONS

An amendment to revise NASD Rule 2711(h)(13) and Incorporated NYSE Rule 472(k)(4) modifies a member's disclosure and supervisory review obligations when it distributes or makes available third-party research reports. The rule change creates a category of "independent third-party research" and eliminates certain supervisory review

RRS PROVIDES A FULL RANGE OF SERVICES TO ASSIST WITH YOUR FIRM'S COMPLIANCE WITH FINRA RULES 3010, 3012 AND 3013, INCLUDING:

- | | |
|--|---|
| ✓ COMPREHENSIVE RISK ASSESSMENT | ✓ REPORT PREPARATION |
| ✓ REVIEW OF SUPERVISORY STRUCTURE | ✓ DRAFT CEO CERTIFICATION |
| ✓ WRITTEN POLICIES AND PROCEDURES GAP ANALYSIS | ✓ ANNUAL COMPLIANCE MEETINGS AND TRAINING |
| ✓ COMPLIANCE PROGRAM TESTING | ✓ ONGOING COMPLIANCE |

FOR MORE INFORMATION CONTACT JOHN PINTO AT (202) 463-6575 OR JOHN.PINTO@RRSCOMPLIANCE.COM

requirements when a member distributes or makes available such research. [\(link\)](#)

REPORTING OF CUSTOMER COMPLAINTS RELATING TO AUCTION RATE SECURITIES

FINRA has added three new product categories for use by member firms in reporting customer complaints relating to auction rate securities. NASD Rule 3070(c) and incorporated NYSE Rule 351(d) require all members and member organizations to report, on a quarterly basis, statistical information regarding customer complaints. This information is required to be filed by the fifteenth calendar day of the month following the end of the quarter.

Member firms are required to submit quarterly statistical reports under NASD Rule 3070(c) and incorporated NYSE Rule 351(d) using the new product categories beginning with second quarter reports that are due to FINRA by July 15, 2008. FINRA member firms may voluntarily use the three new product categories when reporting customer complaints for the first quarter of 2008. [\(link\)](#)

April 2008

**SEC APPROVES RULE CHANGE TO AMEND
FINRA'S GROSS INCOME ASSESSMENT**

The SEC approved amendments to FINRA's Gross Income Assessment (GIA) with a retroactive effective date of January 1, 2008. The amendments establish a new structure for the GIA that combines aspects of FINRA's legacy GIA fee structure with the prior rate structure of NYSE Regulation's Gross FOCUS Fee (GFF). The amendments also made technical changes to Schedule A of the FINRA By-Laws. [\(link\)](#)

**FINRA INTRODUCES RESOURCES FOR
COMPANIES, EMPLOYEES TO GUARD AGAINST
EARLY RETIREMENT SEMINAR SCAMS**

The Financial Industry Regulatory Authority (FINRA) launched two online resources to help companies and their older workers protect themselves from early retirement scams. [\(link\)](#)

**FINRA ALERT CAUTIONS INVESTORS ON
SPECULATING WITH CATASTROPHE BONDS AND
OTHER EVENT-LINKED SECURITIES**

The Financial Industry Regulatory Authority (FINRA) issued an Investor Alert warning investors about the risks of speculating on natural disasters with event-linked securities, such as catastrophe bonds or "cat bonds." Cat bonds offer high yields but can quickly lose most or all of their value if a triggering event, such as a hurricane, earthquake or pandemic, occurs in specified geographical regions. [\(link\)](#)

**FINRA PROPOSES RULE CHANGE TO REQUIRE
REPORTING OF CUSTOMER ALLEGATIONS OF
SALES PRACTICE VIOLATIONS AGAINST
BROKERS IN ALL ARBITRATIONS, CIVIL
LAWSUITS - EVEN WHEN BROKER IS NOT AN
OFFICIAL PARTY TO THE DISPUTE**

The Financial Industry Regulatory Authority (FINRA) is seeking comment on proposed rule amendments that would require registered firms - for the first time - to report allegations of sales practice violations against an individual broker made in arbitration claims or civil lawsuits that do not name the broker as a respondent or defendant. [\(link\)](#)

**FINRA HEARING PANEL DISMISSES 2004 SALES
PRACTICES COMPLAINT AGAINST H&R BLOCK
FINANCIAL ADVISORS**

A Financial Industry Regulatory Authority (FINRA) Hearing Panel dismissed a November 2004 complaint against H&R Block Financial Advisors alleging sales practices and supervisory violations relating to sales of Enron Corporation bonds during the one-month period immediately preceding Enron's filing for bankruptcy protection on Dec. 2, 2001. [\(link\)](#)

**FINRA REQUESTS COMMENTS ON PROPOSED
CHANGES TO FORMS U4 AND U5; COMMENT
PERIOD EXPIRES: MAY 27, 2008**

FINRA requests comment on proposed changes to Forms U4 and U5. The proposed changes, which were developed by a working group composed of regulators and industry participants (the Working Group), are intended to benefit regulators, investors and the industry. Proposed revisions, among other things, would require firms to report, as customer complaints, allegations of sales practice violations made in arbitration claims and civil lawsuits against registered persons who are not named as parties in those proceedings. The proposals also include revisions to Forms U4 and U5 designed to ease, clarify or facilitate reporting requirements and other technical and/or conforming changes. [\(link\)](#)

**FINRA ISSUES GUIDANCE TO BROKER-DEALERS
ON PARTIAL REDEMPTIONS OF AUCTION RATE
SECURITIES**

In response to current market conditions, some issuers are offering partial redemptions of auction rate securities. This Notice reminds firms that when allocating partial redemptions of auction rate securities among their customers, they must adopt procedures that are reasonably designed to treat customers fairly and impartially, and must put their customers' interests ahead of their own. [\(link\)](#)

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NASAA

STATE SECURITIES REGULATORS ANNOUNCE NEW MODEL RULE ON THE USE OF SENIOR CERTIFICATIONS AND PROFESSIONAL DESIGNATIONS

The North American Securities Administrators Association (NASAA) announced that its membership has approved a new model rule prohibiting the misleading use of senior and retiree designations, a problem first spotlighted by state securities regulators and now the subject of federal legislation. [\(link\)](#)

NASAA COMMENDS DATELINE NBC FOR HELPING EXPOSE QUESTIONABLE EQUITY INDEXED ANNUITY SALES PRACTICES TO SENIORS

The North American Securities Administrators Association (NASAA) commended Dateline NBC for its April 13 program, "Tricks of the Trade," which exposed questionable sales practices that some insurance agents use to sell equity indexed annuities that may be unsuitable investments for seniors. [\(link\)](#)

STATE SECURITIES REGULATORS COORDINATE ONGOING AUCTION-RATE SECURITIES INVESTIGATIONS

The North American Securities Administrators Association (NASAA) today said that several of its members have been conducting investigations involving auction-rate securities (ARS) and are coordinating their efforts to help investors who cannot access funds that their brokers placed in these complex investment products. [\(link\)](#)

NASAA APPLAUDS PROPOSED AMENDMENT TO REQUIRE DISCLOSURE OF ALLEGATIONS AGAINST BROKERS IN ARBITRATIONS AND CIVIL LAWSUITS

The North American Securities Administrators Association (NASAA) said a rule amendment recently proposed by the

WHEN A STATE REGULATOR COMES KNOCKING ON YOUR DOOR, IT'S USUALLY NOT A ROUTINE EVENT. UNLIKE THE SEC AND FINRA, MOST BROKER-DEALERS AND INVESTMENT ADVISERS TYPICALLY ONLY DEAL WITH STATE AGENCIES FOR REGISTRATION, LICENSING AND COMPLAINT RESPONSE PURPOSES, AND RARELY HAVE TO DEAL WITH THEM DURING EXAMINATIONS. IT IS FOR THIS REASON THAT MANY FIRMS' GET TRIPPED UP DURING STATE REGULATORY INQUIRIES. THE FACT IS THAT MOST STATE EXAMINATIONS INITIATE FROM COMPLAINTS, TIPS OR SWEEPS BASED ON YOUR FIRM'S SALES PRACTICES OR ADVERTISING MATERIALS AND THEIR PURPOSE IS RARELY ROUTINE. RECENT EXAMPLES INCLUDED SWEEPS ON SENIOR SEMINARS, VARIABLE INSURANCE PRODUCT SALES, AND AUCTION RATE SECURITIES SALES.

RRS' STAFF HAS EXTENSIVE EXPERIENCE IN DEALING WITH STATE REGULATORY MATTERS. WHETHER IT'S REGISTRATION AND LICENSING OR RESPONDING TO A STATE INQUIRY, RRS STAFF CAN HELP SMOOTH THE PROCESS. RRS PREVENTATIVE COMPLIANCE SERVICES INCLUDE BRANCH OFFICE EXAMINATION, REGULATORY MANDATES, COMPLAINT ASSESSMENT, AND MYSTERY SHOPPING FOR BRANCH OFFICES AND SEMINARS. CONTACT US AT (561) 368-2245, OR RESEARCH@RRSCOMPLIANCE.COM FOR MORE INFORMATION.

Financial Industry Regulatory Authority (FINRA) would enhance investor protection by improving disclosure of investor allegations of sales practice violations by brokers in securities arbitration claims and civil lawsuits. [\(link\)](#)

STATE SECURITIES REGULATORS LAUNCH PROGRAM TO HELP LAW ENFORCEMENT INVESTIGATE INVESTMENT FRAUD

The North American Securities Administrators Association (NASAA) announced a new outreach program that provides law enforcement with resources and information to help investigate public complaints about investment fraud. [\(link\)](#)

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MSRB

REMINDER REGARDING DISCREPANCIES IN REPORTS OF INTER-DEALER TRANSACTIONS

The MSRB recently has received inquiries from dealers regarding how to detect and minimize discrepancies in matched inter-dealer transactions. This notice reminds dealers about tools in the Real-Time Transaction Reporting (RTRS) System that are available to help improve performance in reporting inter-dealer transactions. ([link](#))

REPORTING OF PROPRIETARY DESK TRANSACTIONS UNDER MSRB RULE G-14

Under Rule G-14, each dealer is required to report information about each purchase and sale transaction effected in municipal securities to RTRS. Currently, internal movements of securities within a dealer organization are not considered to be reportable under Rule G-14. This is because the dealer is not effecting a purchase or sale transaction with or for any external entity and there is no transfer of ownership. Therefore, a transaction between a dealer's proprietary desk and another desk within the same firm (*e.g.*, between the proprietary desk and the syndicate desk) is an internal movement of securities within the firm and is not a reportable transaction under Rule G-14. In certain dealer firms, a proprietary desk may look and function like any other institutional customer from the viewpoint of the syndicate or trading desk. However, because it operates from within a dealer organization, it is currently considered to be part of that dealer for trade reporting purposes. When a proprietary desk transacts directly with another dealer, such a transaction with an external entity is currently required to be reported to the MSRB as an inter-dealer transaction. ([link](#))

AMENDMENT TO PROPOSED RULE CHANGES REQUIRING UNDERWRITER PARTICIPATION WITH DTCC'S NIIDS SYSTEM

The Municipal Securities Rulemaking Board ("MSRB") filed with the Securities and Exchange Commission an amendment regarding proposed rule changes requiring underwriter participation with The Depository Trust and Clearing

THE RRS SOLUTIONS FOR MUNICIPAL SECURITIES BROKER-DEALERS INCLUDE A WIDE RANGE OF PREVENTATIVE COMPLIANCE SERVICES DESIGNED TO REDUCE THE POTENTIAL FOR DEFICIENCIES DURING REGULATORY EXAMINATIONS. MSRB COMPLIANCE SERVICES INCLUDE EXAMINATION, TESTING AND SUPPORT IN THE FOLLOWING CRITICAL AREAS:

- | | |
|----------------------------------|-------------------------------------|
| ✓ ORDER HANDLING AND EXECUTION | ✓ UNDERWRITING ACTIVITIES |
| ✓ PRICING | ✓ CUSTOMER CONFIRMATIONS |
| ✓ BOOKS AND RECORDS | ✓ TRADE COMPARISON AND CONFIRMATION |
| ✓ OFFICIAL STATEMENT DELIVERY | ✓ POLITICAL CONTRIBUTIONS |
| ✓ SECTION 529 SALES PRACTICES | ✓ TRADE REPORTING (RTRS) |
| ✓ WRITTEN SUPERVISORY PROCEDURES | ✓ SUPERVISORY |

FOR MORE INFORMATION CONTACT JOHN PINTO AT (202) 463-6575 OR JOHN.PINTO@RRSCOMPLIANCE.COM

Corporation's ("DTCC") New Issue Information Dissemination Service ("NIIDS"). The amendment provides that the previously proposed amendments to MSRB Rules G-8, G-9, and G-34 would become effective on September 30, 2008 rather than June 30, 2008 as originally filed. The proposed amended rule language of Rules G-8, G-9, and G-34 remains as originally filed. ([link](#))

April 2008

FINCEN

FINCEN RELEASES UPDATED MORTGAGE FRAUD REPORT MORE SUSPECTED FRAUD BEING INTERCEPTED BEFORE FUNDS WERE DISBURSED

The Financial Crimes Enforcement Network (FinCEN) released an update to its November 2006 mortgage loan fraud assessment, which is based upon analysis of suspicious activity reports (SARs) provided by the financial industry. The previous study examined a statistical sample of SARs reporting mortgage fraud filed between April 1996 and March 2006. This updated study continues the analysis for reports filed through March 2007. [\(link\)](#)

UPDATE OF TRENDS BASED UPON AN ANALYSIS OF SUSPICIOUS ACTIVITY REPORTS

Following a large increase in depository institution Suspicious Activity Report (SAR) filings on mortgage loan fraud, the Financial Crimes Enforcement Network (FinCEN) issued a report in November 2006 describing trends and patterns shown in SARs reporting suspected mortgage loan fraud filed between April 1, 1996 and March 31, 2006. FinCEN has continued to monitor these reports. This analysis updates the previous report by reviewing SARs filed between April 2006 and March 2007. [\(link\)](#)

NOTICE REGARDING RETIREMENT OF THE MAGNETIC MEDIA PROGRAM

In preparation for the retirement of the Magnetic Media program, FinCEN is no longer accepting new applications to batch file BSA forms using tapes and/or diskettes. New users who wish to batch file their BSA forms should submit these files using the BSA E-Filing system. A future announcement will reflect the mandatory transition date from the Magnetic Media program to FinCEN's BSA E-Filing system, which provides filers with a more secure, cost-effective, and efficient filing method. [\(link\)](#)

FINCEN RELEASES FOREIGN CORRUPTION SAR GUIDANCE

VIENNA, Va. - In an effort to better assist law enforcement authorities in targeting foreign corruption and related money

RRS PROVIDES A COMPREHENSIVE SUITE OF SERVICES TO AID IN AML COMPLIANCE, AML PROGRAM DEVELOPMENT, TESTING, TRAINING AND SURVEILLANCE FOR BROKER-DEALERS, INVESTMENT ADVISERS AND OTHER FINANCIAL INSTITUTIONS.

- | | |
|---------------------------|------------------------------------|
| ✓ PROGRAM DEVELOPMENT | ✓ SUSPICIOUS ACTIVITY SURVEILLANCE |
| ✓ CUSTOMER IDENTIFICATION | ✓ SAR/CTR REPORTING |
| ✓ ENHANCED DUE DILIGENCE | ✓ PROGRAM TESTING |
| ✓ OFAC COMPLIANCE | ✓ TRAINING PLANS AND PRESENTATIONS |
| ✓ BSA COMPLIANCE | |

CONTACT BARBARA SIMMONS AT (404) 370-4655 OR BARBARASIMMONS@RRSCOMPLIANCE.COM FOR MORE INFORMATION.

laundering, Financial Crimes Enforcement Network (FinCEN) Director James H. Freis, Jr. today announced the publication of guidance developed to enable financial institutions to file more precise Suspicious Activity Reports (SARs).

The Financial Crimes Enforcement Network is issuing this guidance to financial institutions so that they may better assist law enforcement when filing Suspicious Activity Reports regarding financial transactions that may involve senior foreign political figures, acting individually or through government agencies and associated front companies, seeking to move the proceeds of foreign corruption to or through the U.S. financial system. [\(link\)](#)

FINCEN ANNOUNCES PROPOSAL TO AMEND CURRENCY TRANSACTION REPORTING EXEMPTION REGULATIONS

The Financial Crimes Enforcement Network (FinCEN) is proposing to significantly simplify the current requirements for depository institutions to exempt their eligible customers from currency transaction reporting. FinCEN announced the

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proposal and request for comments in a Notice of Proposed Rulemaking (NPRM) submitted today for publication in the Federal Register. FinCEN is seeking to amend the Bank Secrecy Act (BSA) regulation allowing depository institutions to exempt certain persons from the requirement to report transactions in currency in excess of \$10,000, in accordance with the Government Accountability Office's (GAO's) recent recommendations and FinCEN's independent research on the underlying issues. As the GAO highlighted in its February report, Currency Transaction Reports (CTRs) provide unique and reliable information essential to supporting investigations and detecting criminal activity. [\(link\)](#)

FINCEN AND OCC ASSESS CIVIL MONEY PENALTIES AGAINST THE NEW YORK BRANCH OF THE UNITED BANK FOR AFRICA

The Financial Crimes Enforcement Network (FinCEN) and the Office of the Comptroller of the Currency (OCC) announced the assessment of concurrent civil money penalties, each \$15 million, against the New York Branch of United Bank for Africa, PLC ("the Branch") for violations of the Bank Secrecy Act (BSA). The Branch, without admitting or denying the allegations, consented to payment of the civil money penalties, which will be satisfied by a single payment of \$15 million to the U.S. Department of the Treasury. [\(link\)](#)

AMEX

AMERICAN STOCK EXCHANGE REPORTS A DECREASE IN SHORT INTEREST

The American Stock Exchange® (Amex®) member and non-member organizations reported short interest of 1,294,407,888 shares as of the April 15, 2008 settlement date, an increase of 27,253,599 from the 1,267,154,289 (adjusted) shares reported on March 31, 2008. The figure represents trades through April 10, 2008. [\(link\)](#)

COMPREHENSIVE COMPLIANCE SOLUTIONS

NYSE

MF GLOBAL LTD. (MF)

In view of the unusual market activity in MF Global Ltd. (MF) stock, the Exchange has contacted the company and requested that the company issue a public statement indicating whether there are any corporate developments which may explain the unusual market activity.

The company stated that its policy is not to comment on unusual market activity. [\(link\)](#)

PROGRAM TRADING AVERAGED 24.1 PERCENT OF NYSE VOLUME DURING MAR. 24-28

The New York Stock Exchange released its weekly program-trading data submitted by its member firms. The report includes trading in all markets as reported to the NYSE for Mar. 24-28. [\(link\)](#)

PROGRAM TRADING AVERAGED 25.9 PERCENT OF NYSE VOLUME DURING MAR. 31-APR. 4

The New York Stock Exchange released its weekly program-trading data submitted by its member firms. The report

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includes trading in all markets as reported to the NYSE for Mar. 31-Apr. 4. [\(link\)](#)

PROGRAM TRADING AVERAGED 22.4 PERCENT OF NYSE VOLUME DURING APR. 7-11

The New York Stock Exchange today released its weekly program-trading data submitted by its member firms. The report includes trading in all markets as reported to the NYSE for Apr. 7-11. [\(link\)](#)

PROGRAM TRADING AVERAGED 24.2 PERCENT OF NYSE VOLUME DURING APR. 14-18

The New York Stock Exchange released its weekly program-trading data submitted by its member firms. The report includes trading in all markets as reported to the NYSE for Apr. 14-18. [\(link\)](#)

NYSE GROUP INC. ISSUES SHORT INTEREST REPORT

The NYSE Group, Inc. reported short interest as of the close of business on the settlement date of March 31, 2008. [\(link\)](#)

NYSE EURONEXT'S ALTERNEXT WELCOMES HUACHENG REAL ESTATE - SECOND CHINESE COMPANY TO BE LISTED ON EURONEXT'S MARKETS

NYSE Euronext (NYX) announced the listing of Huacheng Real Estate, the second Chinese company to list on its Alternext Paris market. Huacheng Real Estate (ALHUA) raised €5 million through a private placement, allowing it to use the direct admission procedure on Alternext. The market capitalization of the company amounts to €165 million. [\(link\)](#)

NYSE MEMBER FIRMS REPORT FOURTH-QUARTER 2007 RESULTS

New York Stock Exchange member firms that conduct business with the public reported a fourth-quarter 2007 after-tax loss of \$10.64 billion and revenues of \$88.18 billion, compared with \$4.92 billion in after-tax profits on revenues of \$93.38 billion in fourth quarter 2006. For 2007, the firms reported an after-tax loss of \$7.35 billion on record revenues

of \$352.05 billion, compared with an after-tax profit of \$13.58 billion on revenues of \$331.34 billion in 2006. [\(link\)](#)

NYSE REGULATION ANNOUNCES APRIL DISCIPLINARY ACTIONS AGAINST FOUR FIRMS AND TWO INDIVIDUALS

NYSE Regulation, Inc. announced Monthly Disciplinary Actions for April 2008. NYSE Regulation undertakes disciplinary action to enforce violations of NYSE rules and federal securities laws by member organizations, as well as current and former employees of those organizations. [\(link\)](#)

POWERSHARES LISTS ITS FIRST EVER ACTIVELY-MANAGED ETFS ON NYSE ARCA

NYSE Euronext (NYX) announced the launch of the PowerShares first four actively-managed ETFs, including the first equity based actively-managed ETFs. As an industry leader in ETF and ETN listings and trading, such products listed on NYSE Arca represent 56% of ETF and ETN assets under management in the U.S., nearly \$609 billion, the most of any exchange. [\(link\)](#)

BABCOCK & BROWN AIR LIMITED (FLY)

In view of the unusual market activity in Babcock & Brown Air Limited (FLY) stock, the Exchange has contacted the company and requested that the company issue a public statement indicating whether there are any corporate developments which may explain the unusual market activity. The company stated that its policy is not to comment on unusual market activity. [\(link\)](#)

NYSE GROUP INC. ISSUES SHORT INTEREST REPORT

The NYSE Group, Inc. reported short interest as of the close of business on the settlement date of April 15, 2008. [\(link\)](#)

NYSE ARCA ANNOUNCES NEW EQUITIES PRICING, EFFECTIVE MAY 1

NYSE Arca, a subsidiary of NYSE Euronext (NYX), announced new transaction pricing, effective May 1, 2008, that will feature rebates for non-displayed orders and a new "post/take" rate combination for active customers in NYSE-listed (Tape A) securities. These changes follow recent price

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changes on April 1, 2008, when NYSE Arca introduced highly competitive fees for active traders in NASDAQ-listed (Tape C) securities as well as better rates in NYSE-listed securities and on NYSE Arca Options. [\(link\)](#)

NYSE TO SUSPEND LUMINENT MORTGAGE CAPITAL, MOVES TO REMOVE FROM THE LIST

NYSE Regulation, Inc. ("NYSE Regulation") announced that it determined that the common stock of Luminent Mortgage Capital, Inc. (the "Company") – ticker symbol LUM - should be suspended prior to the opening on Friday, May 2, 2008.

The decision was reached in view of the fact that the Company has fallen below the New York Stock Exchange's ("NYSE") continued listing standard regarding average share price over a consecutive 30 trading-day period of not less than \$1.00. In addition, the market capitalization of the Company's common stock recently has also fallen below the NYSE's continued listing standard regarding average global market capitalization over a consecutive 30 trading day period of not less than \$25 million, which is the minimum threshold for listing. [\(link\)](#)

NYSE ARCA TECH 100 INDEX® ANNOUNCES CHANGE TO INDEX COMPONENTS

The NYSE Group Inc., announced that the NYSE Arca Tech 100 Index® will replace the following constituents in the index as a result of a corporate action. The changes will be effective as of market close on April 30th, 2008.

Leaving the Index:

BEA Systems Inc. (BEAS)

New constituents added to the Index:

Western Digital Corp. (WDC)

NASDAQ-TRADER

NASDAQ OMX PLANS TO LAUNCH THE NASDAQ BX EQUITIES TRADING PLATFORM

As announced in Head Trader Alert #2007-205, NASDAQ OMX entered into a definitive agreement to acquire the Boston Stock Exchange (BSE). Following the SEC approval of the acquisition and amended BSE rules, NASDAQ OMX intends to use the Boston equities SRO license to operate a second quote in the U.S. equity space. Pending SEC approval, the new market center will be called NASDAQ BX ("BX"). [\(link\)](#)

PROTOCOL SPECIFICATIONS NOW AVAILABLE FOR PROPOSED NASDAQ BX

As announced in Head Trader Alert #2007-205, NASDAQ OMX entered into an agreement to acquire the Boston Stock Exchange and offer a second quote in U.S. equities. Specifications for "NASDAQ BX" order entry protocols are now available on the NASDAQ Trader website. [\(link\)](#)

NASDAQ ADDS TWO NEW ROUTING STRATEGIES

As announced in Head Trader Alert #2008-025, NASDAQ plans to route to additional destinations in April 2008. Effective Monday, April 7, 2008, NASDAQ will add SKIP and SKNY order routing strategies which will allow firms to opt out of reaching these new destinations. Updated specifications and User Reference Guide can be found on the NASDAQ Trader website [\(link\)](#)

NASDAQ OMX PLANS TO INTRODUCE NASDAQ BX PROPRIETARY DATA

As announced in Head Trader Alert #2007-205, NASDAQ OMX entered into a definitive agreement to acquire the Boston Stock Exchange (BSE). Following the SEC approval of the acquisition and amended BSE rules, NASDAQ OMX intends to use the Boston equities SRO license to operate a separate Reg NMS protected quote in the U.S. Equity space. Subject to SEC approval, the new market center will be called NASDAQ BX ("BX"). NASDAQ OMX plans to introduce a proprietary data feed, NASDAQ BX TotalView-ITCH ("BX TotalView"), that features the following data elements:

- Order level data with attribution in NASDAQ BX
- Last sale data for NASDAQ BX [\(link\)](#)

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THE EVOLVING MARKET STRUCTURE AND CHANGES TO THE REGULATORY FRAMEWORK CREATE UNIQUE COMPLIANCE ISSUES FOR BROKER-DEALERS ENGAGED IN TRADING AND MARKET MAKING. RRS PROVIDES COMPLIANCE EXAMINATIONS BASED ON FINRA'S TMMS EXAMINATION THAT INCLUDES:

- REGULATION NMS COMPLIANCE
- ORDER HANDLING
- BEST EXECUTION
- TRADE REPORTING
- ORDER EXECUTION AND ROUTING DISCLOSURES
- PAYMENT FOR ORDER FLOW DISCLOSURES
- OATS COMPLIANCE
- TRADER REGISTRATION
- ANTI-COMPETITIVE PRACTICES
- WRITTEN SUPERVISORY PROCEDURES

FOR MORE INFORMATION CONTACT JOHN PINTO AT (202) 463-6575 OR JOHN.PINTO@RRSCOMPLIANCE.COM

NASDAQ REG RECON NOW OFFERS FULLY AUTOMATED FILING OF POTENTIALLY CLEARLY ERRONEOUS TRADES

Don't miss the Clearly Erroneous filing window! On Monday, April 7, 2008, Reg Recon, NASDAQ's real-time surveillance alert and report module, began offering fully automated filing of potentially Clearly Erroneous Trades through the Clearly Erroneous Trade Viewer. Reg Recon is only \$1,000 per month, per MPID, and is viewable through any NASDAQ Workstation and WeblinkACT 2.0 at the firm. Subscribe to Reg Recon by completing the NASDAQ Front-End Access Order Form (PDF) and faxing it to NASDAQ Subscriber Services at 212.231.5426. NASDAQ will be holding a conference call/web demonstration on Wednesday, April 9, 2008, at 10:30 a.m., Eastern Time (ET) [\(link\)](#)

UTP ENHANCEMENTS TO CIRCUIT BREAKER EVENT PROCESSING

The UTP Operating Committee (UTPOC) and the NASDAQ Securities Information Processor (SIP) have announced plans to modify the Emergency Market Condition processing to more closely match the current Regulatory Halt Processing. The SIP will introduce a new Control message (Category C –

Type R) indicating an Emergency Market Condition – Quote Resume. The tentative implementation date is Monday, June 16, 2008. [\(link\)](#)

NASDAQ PLANS TO PARTICIPATE IN THE SIFMA BCP DELAYED OPENING TEST ON SATURDAY, JUNE 7, 2008

NASDAQ plans to participate in the industry-wide SIFMA Business Continuity Planning (BCP) Delayed Market Opening Test on Saturday, June 7, 2008. Prior to the test, customers will be able to test connectivity on Saturday, May 3, 2008. Firms will need to connect using a backup IP address. [\(link\)](#)

UTP PARTICIPANTS PLAN TO TAKE PART IN THE SIFMA BCP TESTING ON SATURDAY, JUNE 7, 2008

UTP Participants plan to take part in the industry-wide SIFMA Business Continuity Planning (BCP) Testing on Saturday, June 7, 2008. The NASDAQ Securities Information Processor (SIP) will be available for this testing and will make all SIP systems available. All UTP data feeds will be available for testing. [\(link\)](#)

NASDAQ OMX ON BEHALF OF FINRA ANNOUNCES CHANGES TO DAILY LISTS AND SECURITY FILES ON OTCBB

NASDAQ OMX, on behalf of FINRA, is implementing changes to the Daily Lists and Security Files which will affect file layouts. [\(link\)](#)

PRE-TRADE RISK MANAGEMENT VIEWER AVAILABLE-FREE THROUGH JUNE 2008

NASDAQ recently introduced a Pre-Trade Risk Management (PRM) suite. PRM offers Fat-Finger and Order Checks, as well as Aggregate Calculations of Pre-Trade Risk. You can view real-time alerts for rejects and when limits are breached for any incoming orders — potentially avoiding erroneous transactions and better managing your risk pre-trade! The PRM Viewer is a FREE add-on to the NASDAQ Workstation or WeblinkACT 2.0 through June 2008. Beginning July 1, 2008, the price for the Viewer will be \$100 per user, per month. [\(link\)](#)

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ASK ABOUT OUR ORDER HANDLING AND BEST
EXECUTION SURVEILLANCE SOLUTIONS

CONTACT JOHN PINTO AT

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OTCBB

FINRA REVISES POLICY FOR DISSEMINATION REPORTS OF OTC EQUITY SECURITY TRANSACTIONS FOR FEWER THAN 100 SHARES

FINRA™ will publish a one time OTCBB/OTC Equities High Price Dissemination List into the FTP site under the file name, OTC_HIGH_PRICE_LIST_03052008, effective Tuesday, April 15, 2008. This is a list of all OTC Equity Securities eligible for trade report dissemination for trades of fewer than 100 shares.

For all OTC Equity Securities that trade at or above \$175.00, transactions of fewer than 100 shares will no longer be considered “odd-lot” transactions for dissemination purposes. Instead, FINRA has designated the unit of trade for these securities as one (1), and FINRA will disseminate last sale information for all transactions of one or more shares in such securities. Going forward, FINRA will review trading activity quarterly to determine whether additional OTC equity securities meet the stated dissemination criteria. [\(link\)](#)

NASDAQ

NASDAQ OMX ANNOUNCES FIRST QUARTER 2008 NEW U.S. LISTINGS STATISTICS

The NASDAQ OMX Group, Inc. (Nasdaq) announced that The NASDAQ Stock Market(r) (NASDAQ(r)) attracted more initial public offerings (IPOs) in the first quarter of 2008 than any other U.S. exchange. [\(link\)](#)

NASDAQ ANNOUNCES END-OF-MONTH OPEN SHORT INTEREST POSITIONS IN NASDAQ STOCKS AS OF SETTLEMENT DATE MARCH 31, 2008

At the end of the settlement date of March 31, 2008, short interest in 2,688 NASDAQ Global Market(sm) securities totaled 9,480,978,979 shares compared with 9,595,273,811 shares in 2,694 Global Market issues reported for the prior

settlement date of March 14, 2008. The end-of-March short interest represents 3.97 days average daily NASDAQ Global Market share volume for the reporting period, compared with 4.20 days for the prior reporting period. [\(link\)](#)

FSA

FSA FINES STOCKBROKER £122,500 FOR POOR SALES PRACTICES

The Financial Services Authority (FSA) has fined Mansion House Securities Limited (Mansion House) £122,500 for giving customers unsuitable and inaccurate advice when selling higher risk shares. [\(link\)](#)

THIRD PARTY ADMINISTRATOR FINED £525,000 FOR CUSTOMER DOCUMENT FAILINGS

The Financial Services Authority (FSA) has fined third party administration firm Liberata Financial Services Limited

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(Liberata) £525,000 for failures in its systems and controls for producing and issuing documents to life and pensions policyholders. [\(link\)](#)

DO MORE TO PROTECT CUSTOMERS' PERSONAL DETAILS, WARNS FSA

The Financial Services Authority (FSA) is urging firms to change their attitude to data security and do more to help prevent their customers falling victim to identity fraud and other types of financial crime. [\(link\)](#)

FSA PUBLISHES AN RDR INTERIM REPORT AND FEEDBACK ON THE REVIEW OF PERSONAL INVESTMENT FIRMS' PRUDENTIAL REQUIREMENTS

The Financial Services Authority (FSA) published an interim report today setting out the current thinking on the Retail Distribution Review (RDR) following a six-month consultation with the market. [\(link\)](#)

"FIND IT - BEFORE THE REGULATORS"

THE STAFF AT RRS ARE CONTINUALLY STRIVING TO ENSURE THAT THE SERVICES AND SUPPORT WE PROVIDE TO OUR CLIENTS ARE THE MOST UP TO DATE AND COMPREHENSIVE AVAILABLE. FREQUENTLY WE ARE ABLE TO FORECAST REGULATORY TRENDS BASED ON THE INFORMATION OUR CLIENTS PROVIDE TO US REGARDING NEW PRODUCTS, SERVICES OR MARKETING TRENDS. THIS "FIND IT - BEFORE THE REGULATORS" INSIGHT ENABLES US TO DEVELOP CUSTOMIZED COMPLIANCE SOLUTIONS SO THAT OUR CLIENTS CAN ADDRESS ANY POTENTIAL REGULATORY DEFICIENCIES BEFORE THE REGULATORS DO. IF YOU HAVE QUESTION OR SUGGESTIONS, PLEASE SPEAK WITH YOUR ACCOUNT REPRESENTATIVE OR CALL US AT (561) 368-2245.

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BOTTOM LINE - WE WANT TO KNOW!

WE WANT TO KNOW HOW WE'RE DOING. IF YOU HAVE COMMENTS, COMPLAINTS OR SUGGESTIONS PLEASE DO NOT HESITATE TO CALL (561) 368-2245.

LOUIS DEMPSEY, PRESIDENT

BART McDONALD, EXECUTIVE VICE PRESIDENT

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LINKS

Government

- U.S. Securities & Exchange Commission – WWW.SEC.GOV
- Municipal Securities Rulemaking Board - WWW.MSRB.ORG
- North American Securities Administrators Association - WWW.NASAA.ORG
- FINCEN - WWW.FINCEN.GOV

SRO

- FINRA - WWW.FINRA.ORG
- NASDAQ - WWW.NASDAQ.COM
- New York Stock Exchange - WWW.NYSE.COM

Industry

- Securities Industry and Financial Markets Association – WWW.SIFMA.ORG
- Financial Market Association – WWW.FMA-USA.ORG
- Alternative Investment Management Association “AIMA” – WWW.AIMA.ORG
- Financial Services Institute “FSI” – WWW.FINANCIALSERVICES.ORG
- Managed Funds Association “MFA” – WWW.MANAGEDFUNDS.ORG
- Investment Company Institute “ICI” WWW.ICI.ORG
- National Society of Compliance Professionals “NSCP” – WWW.NSCP.ORG
- Complanet – WWW.COMPLINET.COM